



2009 State of the City Address  
San José Mayor Chuck Reed

January 14, 2009  
San José McEnery Convention Center

Good morning. Welcome everyone. Thank you for attending San José's Community Breakfast.

Thank you Tom Werner for the introduction, and for leading one of our premier Clean Tech companies. Thanks for making San José the home of the world's most efficient solar cell.

Congratulations to all of our community volunteers and city employees who were just honored. Thank you for everything you do to make San José a great place to live, work and raise a family. Let's give them another round of applause.

And I want to thank our emcees, Teresa Alvarado and Emmett Carson.

Teresa, thank you for your leadership at the Hispanic Foundation and in working with the City to forge a new future for the Mexican Heritage Plaza.

Emmett, thank you for your work at the Community Foundation and for your support for critical ballot measures in November.

Thanks to all of the elected officials who have joined us this morning. And congratulations to our new Supervisors George Shirakawa and Dave Cortese. We are looking forward to working with you in the year ahead.

People often express their concerns to me about the difficulty of being Mayor in these tough times. While I don't underestimate the magnitude of our challenges, I would not trade my problems for the problems of any other big city Mayor in the country.

We are better off in so many ways than many other big cities. As one of America's safest and most diverse big cities, we are a beacon of peace and prosperity that shows what can happen when people focus on what they have in common rather than their differences.

The innovations that have come out of our collective efforts have changed the world. What we do here is important. It must continue, and it will.

San José will remain the Capital of Silicon Valley, and Silicon Valley will remain the innovation center of the world. I have said it before and I will say it again: *The best days of San José and the best days of Silicon Valley are ahead of us.*

I say that against the backdrop of a state in fiscal failure and a nation facing its worst economic challenges in generations. So it may seem impossible for our best days to be ahead of us. But San José and Silicon Valley have survived many economic downturns. Our ability to innovate has pulled us out of economic slumps and made us stronger.

In the early '70s, the defense industry tanked. But out of that recession, we began to commercialize the use of integrated circuits and started a new wave of innovation in silicon chips.

In the early '80s, the semiconductor industry went into recession. Out of that crisis, we moved from chips into microprocessors and launched another wave of innovation in personal computers.

In the later '80s and early '90s, more than a thousand Savings and Loans went broke or were taken over by the federal government in the greatest collapse of U.S. financial institutions since the Great Depression. Sound familiar?

A recession followed, and the future looked mighty grim.

Many people said there was something fundamentally wrong with our region's economy, that we'd never recover. Yet, out of that recession, Silicon Valley turned the ARPANET into the Internet and the dot-com era was launched.

When the dot-com boom went bust, we continued to innovate and grow.

So . . . even though there's a lot of bad news in the economy, we've been through this before.

Now we can see a new wave of innovation that is changing the way the world produces and uses energy. Will Clean Technology be the next new thing that drives our economy forward?

As Yogi Berra is rumored to have said "It's tough to make predictions, especially about the future." But you can be certain that innovation will once again lead us out of tough times.

There are many things that San José must do to help that happen, like making sure our driving industries stay here and grow here. We have to be the best place in the world to start and grow a business, and we have to build the infrastructure to allow businesses to succeed. And we are already doing that.

Let's take a look back.

Since taking office I've met with more than 100 Silicon Valley CEOs to make sure they know we appreciate their business and we want them to stay here. Let me give you one example of why I have those meetings.

A little over a year ago, I met with Michael Klayko, the CEO of Brocade, and learned that Brocade was considering a move out of San José. I asked for a chance to figure out a way to help them stay in San José. He said "yes," and we put together a great team of Redevelopment and city staff to work the problem.

Our team found a site that was not on the market, processed the permits quickly, and put together a package of incentives that the Council approved unanimously. Today hundreds of construction workers are on the job building a new headquarters for Brocade on North First Street for thousands of employees. (Thank you, Michael Klayko.)

You all know from the daily news reports that layoffs are spreading, but many companies *are* still creating jobs. We really appreciate the people who create jobs. If you are the owner or the CEO of a company, large or small, or if you are on the board of an organization working to help businesses create jobs, please stand and be recognized.

Over the past year, our companies created more than 1,500 Clean Tech jobs in San José. That's a nice installment on our Green Vision goal of 25,000 jobs.

Our list of Clean Tech companies continues to grow including SunPower, NanoSolar, SoloPower, Stion, Sunwize, Sopogy, Fat Spaniel, and SVTC.

When Underwriters Laboratories was looking for a home for a solar testing facility, San José was the ideal place to locate, and the best solar testing facility in the country is now up and running.

With the support of our state legislative delegation and the Governor we got AB2466 enacted to allow government agencies to install a solar system on one facility and use the power at another facility.

We worked with SolarTech and our federal legislative delegation, to obtain an extension of alternative energy tax credits, which gave a big boost to our Clean Tech companies.

Last year our retail strategy began to pay off with Lowe's and Costco opening new stores, Santana Row expanding, and The Plant reaching 90% occupancy. If you don't know about The Plant, it's a major shopping center on Curtner just off 87. Check it out. Remember – shopping in San José keeps your sales tax dollars in San José.

And by the way, if we had not turned down requests to convert the land into housing, the new Lowe's and Costco stores would not have happened. Our new policy to preserve employment lands is moving us in the right direction, creating jobs and generating tax revenues.

Last year was a banner year for transportation as well.

The people of San José and Santa Clara County made a major statement with a vote of confidence in our future by approving Measure B to extend and connect BART to Silicon Valley. Californians also gave their support for high-speed rail, and San José will become a major transportation hub for the state. (Carl Guardino and the Silicon Valley Leadership Group – thanks for your leadership)

We received major grants from the state and federal governments that will allow us to build a new baggage screening system at the airport, synchronize our traffic signals, improve Highway 101 in South San José, and start evaluating public/private partnerships for the people mover at the airport.

Last year also showed what can happen when we work together to solve problems.

By collaborating with the County on Destination Home, an innovative program to end chronic homelessness, we now see a future where no one lives on the streets or in the creeks of San José. (Supervisor Don Gage – thanks for co-chairing this effort with me)

By collaborating with Governor Schwarzenegger on Bank on San José, we have created opportunities for all residents to begin to save some of what they earn, and not have to pay exorbitant check cashing fees. (Carole Leigh Hutton and United Way – thanks for taking the lead in implementation)

By collaborating with the Mayors of San Francisco and Oakland, we launched the Bay Area Climate Change Compact to encourage every level of government to establish goals to help solve environmental problems and support clean tech innovation.

By collaborating with businesses, we made improvements in our permitting process, and we were able to work at the speed of business to ensure that growing companies were able to do so in San José. (Pat Dando and the San José Silicon Valley Chamber of Commerce – thanks for staying engaged to help us get better.)

We worked in our Schools/City Collaborative with 19 school districts and the County Board of Education to increase joint use of facilities, enhance student safety, and help recruit teachers. Unfortunately, our schools are looking at heart-wrenching budget cuts. If your company would like to get connected to a district or a school to help out, like NVIDIA did with its extreme make over day at Overfelt, our Schools/City Collaborative is available to make the connection. Call me.

Over the last year, we continued with our Open Government initiatives.

We built on the Reed Reforms. We adopted recommendations from the Sunshine Reform Task Force. We engaged our community in meaningful collaboration on the budget and public safety.

Thousands of our residents and businesses got directly involved in setting our budget priorities and creating a new strategy to reduce gang violence. We brought hundreds of faith leaders together to help us deal with homelessness, gang problems, and domestic violence, and implement our Green Vision.

2008 also was a year in which we began to see significant results from our investments in public safety.

First, our police department grew a little.

In the ten years before I took office, our population increased by 10%, calls for service increased by 30% and the department budget increased by 60%, yet the number of police officers only increased by 2%. As emergency calls increased, officers were moved into patrol, taking resources away from investigating and solving property crimes. In 2006, we had a 25% jump in auto thefts and burglaries, which dropped us a few rungs from top of the list of America's Safest Big Cities.

That's why I've worked hard to find funds to add officers to the force and improve our recruiting. The 15 additional police officers we authorized in the 2007 budget became street ready last year, and the 25 additional officers we authorized in the 2008 budget will soon be in the Academy.

Last year we also saw some significant reductions in gang violence.

Gang activity started going up in 2004, and when I took office it was clear to me that we need to take decisive action. In 2007, we increased funding for the Mayor's Gang Prevention Task Force for the first time since 1999. That made it possible to increase funding for many of the community based organizations who do a great job keeping kids away from gangs, getting kids out of gangs, and reducing violence in our neighborhoods. Last year, gang violence was down by more than 20%.

The suppression of gangs also resulted in a decrease in the number of homicides in 2008. To all the police officers, prosecutors and community members who risked their lives to put murderous gangsters behind bars – the entire city says, “Thank You.”

Even with these improvements, we are not done. We still have too much violence and too many property crimes.

We must continue to build our police department. Despite the major budget gap we see in the year ahead, we must stay the course and add 25 officers next year as we push toward the goal of adding 100 officers by 2012.

We also have to continue to invest in gang prevention and intervention, and I want to thank the City Council for approving half a million dollars to expand the Safe Summer Initiative for 2009. Lots of thanks goes to our community groups and PRNS staff for a very successful first Safe Summer Initiative in 2008.

We also made major improvements and expanded our Fire Department last year. We relocated and expanded three fire stations and built and opened three new fire stations. Each of those new stations cost about \$2 million per year for additional fire fighters, but we now have better coverage for fire and emergency services that benefits the entire city.

All things considered, 2008 was a pretty good year, and our City Manger, Debra Figone, did a great job in many areas. (Deb – thanks.)

Yes, we had many successes, but we still have some big problems ahead of us. By far the biggest problem we face in the coming year is the budget.

Don’t get me wrong, San José is fortunate – other cities have it much worse. We have been fiscally prudent, and I want to thank the people of San José who showed their confidence in us by approving Measures J&K to preserve funding for vital city services. We had a great collaborative effort with our city hall unions, businesses, and community organizations to get both measures passed.

Last year, we had a budget shortfall but we closed the gap and balanced our budget. We will do it again this coming year.

But at the current trends for revenues and expenses for next year, we will have a general fund budget shortfall of more than \$60 million. That’s why, regrettably, we are preparing for layoffs. \$60 million is more than the entire budget of Parks, Recreation and Neighborhood Services department. It’s more than twice the budget for all of our libraries and it’s three times the size of last year’s shortfall. And don’t forget we still have a deferred maintenance backlog of nearly \$500 million.

So what’s driving these numbers? There are three main factors.

First. Capital spending on new facilities.

Over the last decade, we had hundreds of millions of dollars from voter approved bonds to invest in new libraries, community centers, parks, and fire stations. These are great community assets, yet each one adds to our annual expenses for staffing and maintenance.

Second. Growth in salaries and benefits have out paced growth in revenues for years.

This year will see more of the same. We have contracts for general wage increases with nearly all of our unions for this year at 3.75%. When you layer those increases on top of increases in costs for retirement benefits, and health care benefits and step increases, our personnel costs are increasing by over 6% this year. That rate of growth is not sustainable, and I want to thank our unions who have recognized fiscal reality and agreed to smaller wage increases for next year. In these tough times, we need to reach similar agreements with the rest of our unions as well.

Third. The national economy is dragging us down.

Many of our revenue sources are slowing down or shrinking. Sales taxes are headed down. The rate of growth in property taxes is slowing down. Construction and conveyance tax collections through September were down a third from last year. Of course, if the state decides to take some of our revenues again, matters will be much worse.

The combination of these three factors, new facilities, increased personnel costs, and a bad economy, will deepen our long term structural budget deficit and make it impossible to close the budget shortfall next year without making hard decisions. There are some things we will just not be able to do anymore. It is highly unlikely that we can close the gap without layoffs and significant service cuts. I am sorry to say that, but it is reality.

In the face of such challenges, we must all work together to identify our core services, determine our top priorities, and consider alternatives to layoffs. We will involve our residents, our businesses, and our employees in the discussion. We will have open communication and act with compassion, but act we must.

Our residents have told us to change the way we do business to avoid cuts in services and increases in taxes. We need our employees to help us do that, and they are. Over the last 7 years we have struggled to do more with less and we will continue to do so. That's why we have one of the lowest ratios of employees to residents of any big city in the country.

I have been meeting regularly with our City Labor Alliance. I am impressed with their commitment and willingness to help solve our problems. Our employees are a talented group with ideas we need to consider.

We have been talking about a new employee suggestion program. Now's the time to "just do it." We need to save money – and we should reward those who find a way to save taxpayer dollars by sharing some of the savings. If an employee or a team has an idea that saves us a million bucks, we ought to reward them with something significant, like a \$20,000 bonus.

Given the big fiscal challenges facing our city, we must aggressively work for economic growth that will increase our tax revenues. We can swim against the tide of the national recession by following our Green Vision and implementing our short term economic stimulus plan.

We can do so because, as John Gardner, founder of Common Cause, said, "What we have before us are some breathtaking opportunities disguised as insoluble problems."

Opportunities for counter-cyclical investment will create jobs, even in a recession. We must support initiatives that develop and create jobs, encourage private sector investment, and build infrastructure so that we come out of this recession stronger than ever. We must be prepared to take advantage of every such opportunity that comes our way, and we need to take bold action immediately to make sure we don't lose ground this year.

First. We must capture Clean Tech growth opportunities.

Many Clean Tech companies want to expand. Right now we are working with half a dozen companies that would like 2 million square feet of space for thousands of jobs. We need to make sure we are in the best position possible to capture those jobs.

I will be working with the CEO's of Clean Tech companies to get them to consider San José. When those opportunities arise, our entire organization must operate at the speed of business, working seamlessly across the Redevelopment Agency and all City departments.

We also must have a workforce that is ready for those Clean Tech jobs. We will bring together universities, community colleges, labor, non-profit organizations, and our clean tech companies to develop the curriculum to train our people for the next wave of Silicon Valley innovation.

We need to complete the expansion of our BioCenter so that many new biotech companies can move into San José. (Congratulations to Harry Mavrogenes and Agency staff for a highly successful incubator.) We will continue to push to get a pilot manufacturing facility that will help those companies get innovations into production.

Second. We need a concerted effort to keep downtown vibrant.

We were fortunate to have a surge in high rise residential development with hundreds of millions of dollars of private sector investment in our downtown. We need to help those projects succeed so they fill up with new residents who will patronize our shops, restaurants, and arts. Expanding the Convention Center and rehabilitating the Civic Auditorium will help, but we need to do more.

Let's look at our marketing efforts to see where we can help. Let's look at how we can help buyers get into the market. Let's look at what we can do to improve the neighborhoods around each project to make them more attractive, more interesting, and more walkable.

I am sad to say that we have just experienced the loss of one of our oldest arts institutions, the American Musical Theater. That's a big loss, and we have many other arts groups that are at risk as the recession reduces contributions and ticket sales. We need to figure out a way to build audiences despite the recession, and I will be proposing that we use the city funds that would have gone to AMT to help build audiences for our other arts groups.

I will be holding a summit with the leadership of all the organizations that have a stake in downtown to identify other steps we can take this year to keep downtown active and vibrant despite the recession and despite the budget shortfall. I invite your suggestions.

Third. We need to help the less-fortunate among us.

Let's take a moment to count our blessings, give thanks for living in a land of freedom and opportunity, and then ask ourselves if we could do more to house the homeless, to feed the hungry, to support our schools, or to keep an arts organization alive. Our non-profit service providers have seen big increases in the need for food and housing and big decreases in charitable contributions.

Let's ask ourselves, ask our churches, ask our employers – what can we do to help everyone survive these tough times? What can we do to give everyone hope?

San José is a place built on hopes and dreams. Many of us came here from somewhere else, dreaming of freedom, looking for a better life, searching for a better job, and hoping for a better future for our children.

Today, we join together with great hope on the brink of an historic day, as we are about to inaugurate a president whose life inspires us to believe in what opportunity and hard work can achieve.

We have hope for a better future for San José, for Silicon Valley, for California and for the nation.

We have hope, as President-Elect Obama said:

*Hope . . . in the face of difficulty. Hope . . . in the face of uncertainty. The audacity of hope! In the end, that is God's greatest gift to us, the bedrock of this nation. A belief in things not seen. A belief that there are better days ahead.*

Yes. The best days of Silicon Valley and the best days of San José are ahead of us. Together we will make it happen.